FISCAL UPDATE

December 3, 2002

Legislative Fiscal Bureau

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http://staffweb.legis.state.ia.us/lfb

* * * * SPECIAL EDITION* * * *



Congratulations on your recent election to the Iowa General Assembly. This issue of the *Fiscal Update* is intended to give you a brief overview of the State General Fund receipts and expenditures, and functions of the Legislative Fiscal Bureau (LFB).

What is the Fiscal Update?

The <u>Fiscal Update</u> is a newsletter issued weekly during the legislative session and approximately bi-weekly during the interim. It contains summaries of action on all appropriations bills at each stage of the process, fund transfers, board/committee meetings, Governor's budget hearings, item vetoes, and other budget-related matters.

Staff Contact

Under each article is a "staff contact." If you should have any questions about this issue or any other questions relating to the State budget or department operations, please do not hesitate to contact our office.

STAFF CONTACT: Dennis Prouty (Ext. 13509)

WHAT IS THE LEGISLATIVE FISCAL BUREAU?

What is the LFB?



The LFB is a non-partisan organization mandated to provide information that enhances the budget and policy-making functions of the General Assembly. Established in 1967, it is one of four central legislative staff agencies governed by the Legislative Council. The other non-partisan legislative agencies are the Legislative Service Bureau, the Legislative Computer Support Bureau, and the Citizen's Aide Ombudsman. One of the functions of the Council is to function as the policy-making and oversight authority for all central legislative staff agencies.

Principal Tasks Include

The principal tasks of the Fiscal Bureau are to provide timely, useful analysis and evaluation of the expenditures, revenues, and operations of State government, and to evaluate the potential impact of legislative proposals on State and local government. The LFB currently has a staff of 26 including the director, deputy director, 18 analysts, three computer software development staff, and three administrative staff. The four primary functions of LFB staff include:

• Staffing appropriations committees and subcommittees; staff support for the

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- Preparing estimates of the fiscal impact of pending legislation.
- Analyzing departmental expenditures, compliance with legislative intent, and overall performance of departments.
- Making revenue projections.

STAFF CONTACT: Holly Lyons (Ext. 17845)

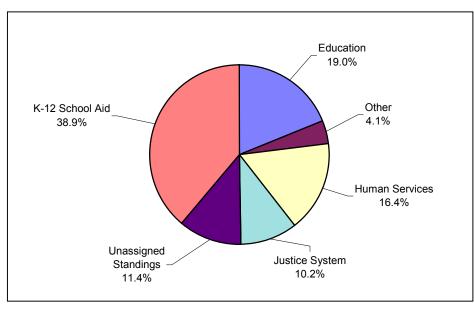
THE GENERAL FUND BUDGET

Size of the Budget



The State of Iowa's General Fund budget for FY 2003 is approximately \$4.870 billion. The largest section of the budget is Education, including K-12 education and the Regents institutions, which comprises approximately 56% of the total. The approximate breakdown of the remaining budget is reflected in the chart below:

Distribution of Estimated FY 2003 State General Fund Appropriations (Dollars in millions)



Fiscal Year

The fiscal year in Iowa begins on July 1 and ends on June 30. The current fiscal year, FY 2003, began last July 1, and will end on June 30, 2003. The federal fiscal year begins on October 1 and ends on September 30.

STAFF CONTACT: Dennis Prouty (Ext. 13509) Holly Lyons (Ext. 17845)

GENERAL FUND REVENUES

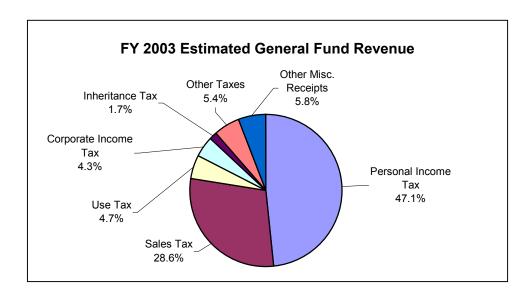
Source of Revenue



Receipts to the State General Fund are generated from several sources. The largest source of revenue for the General Fund is personal income tax, which provides 47.1% of the total budget. Sales tax contributes 28.6%, and corporate income tax generates approximately 4.3%. The remaining revenues come from a variety of sources, including use tax, inheritance tax, and insurance premium tax. The following table and chart reflect the FY 2003 Estimated General Fund Revenue as estimated by the September Revenue Estimating Conference.

General Fund Receipts (Dollars in Millions)

Tax Receipts	FY 2002 Actual	FY 2003 Estimate	Percent of Total		
Personal Income Tax	\$2,372.0	\$2,417.7	47.1 %		
Sales Tax	1,453.0	1,467.5	28.6		
Use Tax	238.5	241.0	4.7		
Corporate Income Tax	221.3	221.7	4.3		
Inheritance Tax	100.4	85.1	1.7		
Insurance Premium Tax	135.4	138.2	2.7		
Cigarette Tax	88.0	87.2	1.7		
Tobacco Tax	7.1	7.2	0.1		
Beer Tax	13.8	14.0	0.3		
Franchise Tax	30.9	29.6	0.6		
Miscellaneous Tax	1.5	1.3	0.0		
Total Tax Receipts	\$4,661.9	\$4,710.5	91.7 %		
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Other Receipts		0.40.0			
Institutional Payments	\$48.6	\$18.2	0.4		
Liquor Transfers A. Profits	20.5	00.0			
B. 7% Gross Revenues	38.5	39.0	0.8		
Interest	9.0	9.0	0.2		
Fees	25.3	17.0	0.3		
	70.2	65.4	1.3		
Judicial Revenue	51.9	54.1	1.1		
Miscellaneous Receipts	42.1	34.9	0.7		
Racing and Gaming	60.0	60.0	1.2		
Total Other Receipts	\$345.6	\$297.6	5.8 %		
Total Tax & Other Rec.	\$5,007.5	\$5,008.1	97.5 %		
Total Tax & Other Nec.	ψ3,007.3	Ψ3,000.1	97.5		
Lottery	40.0	34.0	0.7		
Transfers	265.8	93.4	1.8		
Total Receipts & Trans.	\$5,313.3	\$5,135.5	100.0 %		
•					
Accruals	16.2	5.5	0.1		
Refunds	-663.1	-622.0	-12.1		
			_		
Net Receipts	\$4,666.4	\$4,519.0	88.0 %		



STAFF CONTACT: Jeff Robinson (Ext. 14614) Dennis Prouty (Ext. 13509)

REVENUE ESTIMATING CONFERENCE

REC Membership



State General Fund revenues are estimated by a three-member Revenue Estimating Conference (REC) that meets at least quarterly. Members are the Director of the Legislative Fiscal Bureau (Dennis Prouty), the Governor or the Governor's designee (Holmes Foster, retired banking superintendent) and a third member agreed to by the other two. Currently, the third member is David Underwood, Chief Financial Officer of ASSA ABLOY, DOOR GROUP.

The next meeting of the REC is scheduled for December 6. The Conference will review the FY 2003 estimates and make initial estimates for FY 2004. The Governor will use these estimates in the preparation of his FY 2004 budget. Please contact the Fiscal Bureau for more information.

STAFF CONTACT: Jeff Robinson (Ext. 14614) Dennis Prouty (Ext. 13509)

EXPENDITURE LIMITATION

Expenditure Limitation



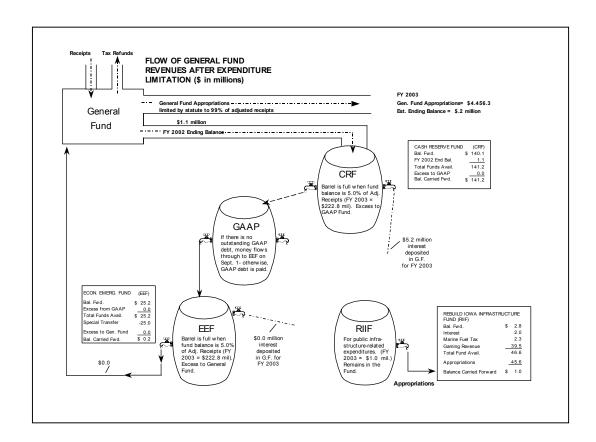
REC Estimate

The State follows Generally Accepted Accounting Principles, also known as GAAP, which are uniform minimum standards for financial reporting. In 1992 several reforms to the budget process were approved to provide a long-term solution to budget problems the State faced in the late 1980's and early 1990's. One of these reforms was the "Expenditure Limitation" law. This law limited spending to 99% of revenues, established the Cash Reserve Fund, established the GAAP Reduction Fund, and modified the Economic Emergency Fund (Section 8.54-58, Code of Iowa).

The Expenditure Limitation law requires the Governor and General Assembly to use the revenue estimates agreed to by the December Revenue Estimating Conference as a basis to determine the General Fund budget for the following fiscal year.

Flow of General Funds

The following diagram illustrates the basic flow of the General Funds with expenditure limitation:



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PROJECTED FY 2003 GENERAL FUND BALANCE

Last May

When the General Assembly adjourned last May after the Special Session the estimated General Fund ending balance for FY 2003 was \$200,000. This estimate will be adjusted by the December 6 meeting of the Revenue

Estimating Conference. The following balance sheet reflects legislative action.

STATE OF IOWA GENERAL FUND BALANCE

(Dollars in Millions)

	FY 2002			FY 2003				
	04/12/02 End of Session		06/13/02 Enacted		04/12/02 End of Session		06/13/02 Enacted	
Estimated Funds Available:								
Estimated Receipts Revenue Est. Conference Receipts	\$ —	5,080.2 101.7	\$	4,948.3 107.2 203.8	\$ 	5,171.0 48.1_	\$ 	4,952.3 49.7 16.3 40.6
Total Receipts		5,181.9		5,259.3	-	5,219.1		5,058.9
Tax Refunds Accruals		- 583.0 3.9		- 643.0 - 15.2		- 606.0 5.0		- 606.0 3.6
Total Funds Available		4,602.8		4,601.1		4,618.1		4,456.5
Expenditure Limitation					\$	4,571.4		
General Fund		4,610.2		4,610.2		4,570.1		4 400 0
Second Special Session (Exh. 2) Reversions: Regular		- 10.2		- 10.2		- 10.0	- — -	- 12.5
Net Appropriations		4,600.0	_	4,600.0		4,560.1		4,456.3
Ending Balance prior to Cash Reserve Transfer	\$	2.8	\$	1.1	\$	58.0	\$	0.2

STAFF CONTACT: Dennis Prouty (Ext. 13509)

SHIFT OF FUNDS TO THE GENERAL FUND AND SHIFTING OF EXPENDITURES TO OTHER FUNDS

Shifting of Funds

In FY 2003, funds totaling \$98.1 million were shifted from other funds to the General Fund. A number of these transfers were from one-time sources of funds. Approximately \$253.3 million in expenditures were funded from non-General Fund sources and many of these were one-time sources of funds. These were expenditures that had been previously funded from the General Fund. The table below reflects the shifting of revenues and expenditures in FY 2003.

FY 2003 SHIFT OF EXPENDITURES/REVENUES TO THE GENERAL FUND (\$ in millions)

	Estimated FY 2003	
FY 03 Expenditures		
Salaries Cut Furlough Days	\$	33.6
Regent Demutualization To Salaries		30.0
Economic Emergency Fund to K-12		25.0
DHS Medicaid - SLTF		21.7
Tobacco Settlement To K-12		20.0
Regent Tuition Replacement - RIIF		16.8
DHS Medicaid - SLTF		16.0
ICN Debt Service		12.2
DHS Medicaid - Hospital Trust		12.0
Sal. Adj. Fund - UST		11.0
Student Achievement - Premium Tax		10.0
DHS Medicaid - Tobacco		10.0
Regent Tuition Replacement - Tobacco		9.2
Student Achievement - UST		8.9
School Technology - RIIF		5.8
Prison Infrastructure Debt Service		5.2
Student Achievement - RIIF		5.0
Capitol Security - RIIF		0.9
Total	\$	253.3
FY 03 Revenue	Φ.	22.0
School Infrastructure to the General Fund Environment First Fund to the General Fund	\$	
RIIF To The General Fund		<u>18.8</u> _ 16.1
UST to the General Fund		10.0
Endowment for Iowa's Health to the General Fund		9.0
Prision Infrastructure to the General Fund		7.6
Reserve Fund Interest to the General Fund		5.2
Title Guarantee to the General Fund		2.7
Vehicle Depreciation Fund		2.2
Waste Tire Fund to the General Fund		1.6
Groundwater Protection Fund		1.0
Jury & Witness Fund		1.0
Lottery Transfer		0.5
Innovations Fund		0.4
Total	\$	98.1

STAFF CONTACT: Dennis Prouty (Ext. 13509) Holly Lyons (Ext. 17845)

THE APPROPRIATIONS PROCESS

level in individual decision packages.

Department Requests





December Budget Analysis

The Fiscal Bureau also analyzes and summarizes the Governor's recommendations, drawing comparisons to the prior year and to department requests. This report is published during the first two weeks of the Legislative Session.

In lowa, the departmental requests are submitted annually to the Department

November 15 and the Governor must submit his annual recommendation to

the General Assembly by February 1. Departments may assume 75.0% of the prior year's budget as a base budget but must justify funding above that

The budget requests are sent to the Fiscal Bureau, which analyzes and compares the requests to previous budgets. A report is prepared to provide

the General Assembly with information on the upcoming fiscal year's estimated General Fund receipts as well as departmental budget requests. The report also highlights issues the General Assembly may want to address

during the budget process. This report is released in December.

of Management beginning October 1. Budgets must be finalized by

Legislative Process



Subcommittee Meetings

Each chamber of the General Assembly currently has a 25-member appropriations committee. The budget is considered by the General Assembly in annual sessions by eight joint appropriations subcommittees of the full appropriations committee. There were formerly nine appropriations subcommittees but the Health and Human Rights Subcommittee has recently been eliminated and the departments under its purview have been distributed to the other Subcommittees.

The Subcommittees usually meet approximately three times a week in the mornings during the months of January through March. The Subcommittees and the approximate size of the General Fund FY 2003 budget under their purview are listed below.

- Administration & Regulation -- \$79.5 million
- Agriculture & Natural Resources -- \$32.5 million
- Economic Development --\$25.3 million
- Education -- \$851.4 million
- Human Services -- \$774.2 million
- Justice System -- \$458.5 million
- Transportation, Infrastructure, & Capitals -- \$0.0 million
- Oversight and Communications -- \$0.0 million

Role of the LFB

The LFB staff provides staff support and information throughout the process beginning with analysis of the department requests, continuing with analysis of the Governor's recommendations, and subsequent legislative action.

Joint Process

The Subcommittee process is a joint process (House and Senate) and if agreement can be reached between members from both chambers, a single bill is voted out of Subcommittee. If not, then two separate bills may be passed out of Subcommittee with each bill going to its respective chamber and appropriations committee.

Subcom. Recommendation

The appropriations subcommittee recommendations are passed on to the full appropriations committees and to the floor for debate. This usually occurs in March and April. The bills are debated and upon final passage are sent to the Governor for approval and/or item vetoes. This happens in late April or early May. If the Governor receives an appropriations bill prior to the last three days of the legislative session, he or she has three days in which to take action on that bill. If the bill does not reach the Governor's desk prior to the last three days of session, the Governor has 30 calendar days from adjournment in which to act upon the bill.

Effective Dates

Unless otherwise specified, the budget is in effect beginning July 1 following the legislative session.

STAFF CONTACT: Holly Lyons (Ext. 17845)

STANDING APPROPRIATIONS AND TAX ISSUES

Standing Appropriations

Other committees in each chamber consider standing appropriations and tax issues. Standing appropriations are those appropriations that are established in the <u>Code of Iowa</u>. Standing unlimited appropriations are made by statute, not session law, but no dollar amount is stated in the Code.

K-12 Education



Kindergarten through grade 12 (K-12) education is funded through a standing unlimited appropriation. Each year, within 30 days of the submission of the Governor's budget, the General Assembly must enact an allowable percentage increase in State cost per pupil. To assist the General Assembly, the Fiscal Bureau maintains a K through 12 funding model that projects the cost of various school aid proposals. The allowable growth amount for FY 2003 is 1.0%.

Ways & Means Committees

House and Senate Ways and Means Committees are standing committees that deal with tax matters. The Fiscal Bureau supports the Committees by analyzing tax proposals and maintaining a tax model that can estimate the impact of changes in tax policy.

STAFF CONTACT: Jeff Robinson (Ext. 14614) Dwayne Ferguson (Ext. 16561)

FISCAL NOTES AND OTHER LFB DOCUMENTS

Fiscal Notes

Fiscal notes outline the monetary effects of pending legislation. Pursuant to the Legislature's Joint Rule 17, a fiscal note is written for each bill with a significant fiscal effect (\$100,000 in a fiscal year or \$500,000 in a five-year period) and bills that have State mandates that have an impact on political subdivisions. Separate fiscal notes can be written for bill amendments and fiscal notes can be revised as the content of the legislation changes the fiscal effect. A completed fiscal note includes a brief explanation of the bill, its monetary effect, and a short outline of any additional information about the bill's effects beyond its fiscal effect. When filed, fiscal notes are published in the daily clipsheets of the respective chamber.

NOBA



Program Evaluations

Other Documents

The **Notes on Bills and Amendments (NOBA)** document is a bill summary prepared for most major appropriations bills. It is updated after each legislative action. In the main section of NOBA, the actual bill is printed on the left-hand side of the page and any detail or explanation provided by the LFB analyst is printed on the right-hand side of the page, side by side with the portion of the bill being explained. A NOBA also has an executive summary, noting the more significant issues in the bill and giving the location of that item (page and line number). A tracking document, or spreadsheet detailing the appropriations contained in the bill, is attached to each NOBA.

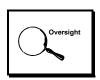
The LFB staff may conduct program evaluations at the direction of the Legislative Council to assess how well State programs are meeting objectives. These studies examine the current and recent history of departmental management and performance and offer recommendations to improve performance.

The LFB also issues a variety of other budget and legislative oversight documents such as the **FACTBOOK**, a range of facts regarding the State of lowa, analyses of the department budget requests and Governor's recommendations, FISCAL FACTS, a condensed, pocketsize version of the **FACTBOOK** that also highlights the previous legislative session, and the Fiscal Bureau Annual Fiscal Report, issued in July and summarizing legislative action.

STAFF CONTACT: Holly Lyons (Ext. 17845)

LEGISLATIVE OVERSIGHT

Oversight



Performance Oversight

Fiscal Update

Issue Reviews

The Fiscal Bureau reviews the operation of State agencies and programs by performing oversight in three areas: legislative intent, expenditure, and performance. The Fiscal Bureau monitors agencies for compliance with legislative intent twice a year and publishes the findings. Departmental expenditures are reviewed by using monthly accounting tapes to compare actual expenses to the original budget. An annual expenditure and employee oversight report is prepared at the close of each fiscal year and published in a Special Edition of the Fiscal Update. This report presents an overall appraisal of the departments' expenditures, and it analyzes the fulltime equivalent positions within each department.

Performance Oversight is achieved through several oversight mechanisms.

The *Fiscal Update* is a newsletter published weekly during Session and approximately bi-weekly during the interim. It contains summaries of subcommittee action, fund transfers, board meetings, item vetoes, Governor's budget hearings, and other budget-related matters.

Issue Reviews are brief, one to five page reports that review issues identified through the on-going legislative oversight process. Issue Reviews are done primarily during the interim and are mailed to all legislators. In addition, selected Issue Reviews are presented at Fiscal Committee meetings.

Fiscal Committee



majority party.

The Fiscal Committee is staffed by the Fiscal Bureau and meets approximately monthly during the interim months and if necessary during the legislative session. The primary responsibility of the Committee is to gather information relative to budget matters and make recommendations to the Council relating to oversight and budgeting.

The Legislative Fiscal Committee is a ten-member statutory committee of the

Legislative Council. It is composed of the chairpersons and ranking members of the House and Senate Appropriations Committees, the chairpersons and ranking members of the House and Senate Ways and Means Committees, and one member each from the House and Senate

Oversight Committee



The Oversight Committee is a permanent standing committee established under the Legislative Council. The Council designates the membership of Committee. In addition to the duties assigned to the Committee by the Council, the charge of the Committee is to systematically review the programs, agencies, and functions, of the Executive and Judicial Branches of government to ensure that public resources are used in the most effective manner. The Committee is authorized to meet during the Session and the Interim and is staffed jointly by the Legislative Fiscal Bureau and the Legislative Service Bureau.

STAFF CONTACT: Holly Lyons (Ext. 17845) Douglas Wulf (Ext. 13250)

ELECTRONIC PUBLISHING OF INFORMATION

On-line Access



The Legislative Fiscal Bureau (LFB) has implemented a project containing a series of computer programs to allow legislators and legislative staff on-line access to LFB information. The information available includes:

- An LFB staff directory with access to electronic mail, and committee and subcommittee assignments.
- Financial information, including:
 - Appropriations Tracking Viewing of appropriations status and amounts.
 - Balance Sheet Viewing the most recent and past balance sheets.
 - Taxes and Receipts Viewing of daily and historical revenue information.
 - Monthly Revenue Memo Viewing of the Monthly Revenue Memo issued the first of each month.
 - School district budget guarantee estimator and calculator.
- During the Session, appropriations subcommittee agendas, minutes and handouts distributed at meetings.
- During the Interim, agendas, minutes and handouts for the Legislative Fiscal Committee, and Oversight Committee.
- Miscellaneous information and publications, including:
 - Viewing of the *Fiscal Update* (the weekly LFB newsletter) and *Issue* Reviews published by the LFB.

- Accessing an electronic version of the State Employee Salary Book. The program provides electronic searching capabilities.
- Viewing a repository of miscellaneous information created by the LFB, including on-going reports and information.
- Accessing the Department Budget Requests and Governor's Budget Recommendations analysis created by the LFB.
- Viewing the LFB Factbook, which is statistical summary information.
- Fiscal Notes and Bill Summaries:
 - Viewing the executive summaries of Notes on Bills and Amendments (NOBA).
 - The Fiscal Note System Accessing the status of written and pending fiscal notes, displaying filed fiscal notes, and viewing a historical index of fiscal notes from past sessions.

Each computer program has a help file that is intended to assist the user in running each of the programs.

The LFB is continuously developing the Electronic Publishing system. If you have any suggestions or if questions or problems develop with the computer run or information, please do not hesitate to contact the LFB.

STAFF CONTACT: Glen Dickinson (Ext. 14616)

LFB INTERNET ADDRESS Visit the LFB website located at http://staffweb.legis.state.ia.us/lfb/

NOBA

"Help" Files

Development Continues